

Lecture Summary: The Investment Process

There are SEVEN stages to the investment process

1. **Origination:** This is the first part of the process—how do you find the initial candidates for an investment. This is the WHO, WHAT, and WHERE for deal sourcing.
 - a. Who will be helping to bring potential deals to you?
 - i. Yourself via desktop research and finding deals in the field
 - ii. Your Network
 - Brokers
 - Bankers
 - Developers
 - Anyone!
 - iii. Make your intentions known and you can be surprised by who might bring you deals.
 - b. What type of deal and what size?
 - i. How much do you have to invest and how much do you want to invest per deal?
 - ii. Are you looking for more conservative income producing assets or higher return but also higher risk projects?
 - c. Where would you want to source deals?
 - i. What markets are you familiar with?
 - ii. What market are you willing to travel to evaluate sites and manage assets?
2. **Analysis:** The focus of this course here
 - a. How do you actually evaluate an investment opportunity?
 - b. What are the key drivers of risk and return?
 - c. How do you make proper assumptions?
 - d. How and when to use a “back of the envelope” analysis for quick sanity checks?
3. **Due Diligence:** Verifying and validating all your key assumptions
 - a. Once you’ve determined a particular investment opportunity is worth pursuing, you need to validate and verify all your key assumptions
 - i. Are there more renovations than you anticipated?
 - ii. Is the achievable rents more or less than what you originally assumed?
 - iii. Has purchase changed?
 - iv. Has financing terms changed?
 - v. And lots more...
 - b. Download the due diligence checklist as a starting point. Not all of the items will apply to your particular deal but it will cover many of the important items for most deals.
4. **Financing & Closing:**

- a. Understand the role of debt and its impact on returns.
- b. Having the right amount of leverage can improve returns without putting undue risk to the investment.

5. Construction/Rehab:

- a. The phase that accounts for any renovations or construction required for the investment
- b. Changes to the timing and cost could significantly impact the expected returns of an investment

6. Stabilization/Exit: Getting the investment ready for a long term hold or an exit via sales

- a. Changes to the market dynamics could affect the ultimate exit price and realized returns of an investment